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SIPDIS

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [EINV](#) [BL](#) [EFIN](#) [ASEC](#) [SENV](#)  
SUBJECT: GOVERNMENT OF BOLIVIA FOLDS REGULATORY BODIES BACK  
INTO MINISTRIES

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Classified By: A/EcoPol Chief Brian Quigley for reasons 1.4 (b, d).

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Summary  
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¶1. (C) The Movement Toward Socialism (MAS) economic model firmly places the state at the center of all economic activity. One more step will be taken toward this goal with the dismantling of the regulatory system that won accolades upon its creation in the early 1990s. The system featured superintendencies to regulate different areas of the economy. These "supers" acted as independent arbitrators to interpret and enforce Bolivian law. The Morales administration has steadily eroded their effectiveness over the past three years and, on April 7, the "supers" will disappear by presidential decree. It is unclear what will happen to the remaining specialized technical staff, but in most cases the regulatory functions will now be absorbed by government ministries which tend to place greater value on ideological rather than technical qualifications. End summary.

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The Superintendencies  
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¶2. (U) In the early 1990s, as Bolivia went through the process of privatizing many of its state industries, a regulatory model featuring superintendents for many economic areas was created. The idea was to create a neutral arbitrator to interpret and enforce Bolivian law. The "supers" added transparency to economic rule making and standards and also developed a cadre of highly technical staff, capable of monitoring and understanding the complexities of business regulation. At its creation the system was widely praised and delegations from around the developing world visited Bolivia to help model their own regulatory system.

¶3. (U) On April 7, the "supers" governing forestry, agriculture, electricity, transportation, telecommunications, and sanitation will all close by a presidential decree. The

"super" that regulated hydrocarbons will be transformed into the Multinational Agency of Hydrocarbons, which in turn will be absorbed within the Ministry of Hydrocarbons. The "supers" that regulated pensions and the banks will be renamed and taken into the Ministry of the Treasury and the business "super" will go to the Ministry of Production. The government has not said what will happen to the technical staff that still worked at the "supers" but Gabriel Dabdoub, President of the Bolivian Private Business Association, fears a "total politicization," with technical staff substituted with political sympathizers. Where the "supers" used to function as valid intermediaries for very complex and specialized topics, they will now be only another opaque and under-trained part of the Morales administration.

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Electricity  
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¶4. (C) The General Manager of Valle Hermossa Electric Company Carlos Querejaza, told Econoff that while the abolishment of the electricity "super" did not come as a surprise, it will be a severe blow to the industry. There will no longer be any independent organization to raise concerns should the government mandate unjust requirements or rules for the industry. Moreover, regulation affecting the industry will now be made without any transparency. Querejaza fears a complete dependency on the Ministry and disloyal competition from any state companies in the sector. (Note: Morales has consistently promised to nationalize the principal electrical companies. Querejaza thinks that Valle Hermossa will be nationalized in May or August, on dates important to the Morales administration. End note.)

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Hydrocarbons  
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¶5. (C) Within the field of hydrocarbons, the disappearance of an independent regulator most affects the "downstream" activities of refining and distribution. As the national hydrocarbon company YPFB now controls distribution, the move will not have a big impact on the major gas producers. Carlos Delius, Vice President of the Bolivian Chamber of Hydrocarbons, said that while the "super" was intended to protect the consumer, it hasn't been doing its job anyway. He pointed to the long lines for diesel in Santa Cruz as one example. According to Delius the "super" had already been fully politicized, so its absence will not be missed. Aturo Castanos, the Petrobras representative in La Paz, told us that the biggest effect in the area of hydrocarbons would be seen at the level of the gas stations, where YPFB is likely to put the squeeze on any private competition. Now that distribution will be determined (and monitored) within the Ministry, there will be no way to verify that private stations get their "fair share" of gasoline.

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Forestry  
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¶6. (SBU) Elimination of the Forestry Superintendent, combined with other developments in the sector, will have not only economic consequences, but environmental ones as well. A Bolivian government contractor has informed us that the government is starting its own wood manufacturing company, which will mean further competition in an already sagging forestry market and a potential for blatant favoritism in the granting of land use permits. Forestry exports were down 55 percent in 2008, compared to an overall decrease in exports of 15 percent. The government is also reconfiguring the forestry police. Instead of specially-trained units patrolling within the forests, the emphasis now will be on stopping contraband on the road - - after the damage has

already been done. At the March 27 closing ceremony of the annual forestry fair EXPOFOREST, several speakers expressed dissatisfaction about the removal of the forestry "super", which granted permits based on sustainable management principles. They were particularly concerned that permits would be granted in the future on political grounds. Because of the importance of Bolivia's tropical forest reserves in terms of biodiversity protection and carbon offsets, erosion of control in this area may have global climate change implications.

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Comment  
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17. (C) The end of independent regulation does not come as a surprise. The superintendencies have been steadily politicized since Morales took office and their demise was predicted by the National Development Plan. It is yet another way the government can opaquely help state enterprises at the expense of private industry. The progress Bolivia enjoyed in the 1990s towards establishing a functioning, well-regulated market economy is being steadily dismantled, the disappearance of the "supers" is just one more step backwards.  
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